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Committee

REPORT OF THE BUDGETARY AND FINANCE COMMITTEE

Rapporteur: Ms. Heather DOWSETT (New Zealand)

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INTRODUCTION

1. The Budgetary and Finance Committee held 11 formal meetings from 4 May through 26 May 1992 under the chairmanship of His Excellency Ratu Manasa K. Seniloli (Fiji). Ms. Heather Dowsett (New Zealand) served as Rapporteur of the Committee. Mr. Aly Nazerali (United Nations Development Programme (UNDP)) served as Secretary to the Committee.

2. At its first meeting, the Committee approved the provisional agenda and organization of work contained in annexes I and II, respectively, to document DP/1992/BFC/L.1. The Committee agreed to keep its schedule of work flexible, taking into account the availability of documentation and the number and nature of matters referred to it by the Governing Council.

3. The recommendations of the Committee were submitted to the Governing Council in the addenda and annexes of document DP/1992/BFC/L.2, together with the amendments thereto contained in DP/1992/BFC/L.3 and Add.1. At its 31st meeting, the Council adopted the recommendations of the Committee. The views expressed during the Council's consideration of the Committee's recommendations are contained in document DP/1991/SR.31.

4. The report to the Economic and Social Council on the thirty-ninth session of the Governing Council (E/1992/28/Supplement No. 8) includes, in its annex I, the recommendations of the Budgetary and Finance Committee as approved by the Council.

I. MATTERS REFERRED TO THE COMMITTEE BY THE COUNCIL

The Commonwealth of Independent States: Ways of establishing a United Nations presence

5. The Budgetary and Finance Committee met to discuss financial aspects of the proposals concerning UNDP activities in Eastern Europe and the Commonwealth of Independent States after the item was referred to the Committee by the plenary informal consultations group.

6. The focal point for this item presented, for the Committee's consideration, the draft budgetary paragraphs that might be incorporated into the overall Governing Council decision on the matter. Those draft paragraphs were designed to reconcile opposing views as to the funding of the activities. The proposed wording was an attempt to provide for additional funding in the 1992-1993 biennium while meeting the concerns expressed by some delegations that such funding should not be at the expense of the present programme or of other recipients. Thus, it was proposed that the amounts to be spent in the 1992-1993 biennium be considered as advances to be reimbursed by the end of 1995 by a combination of host government contributions, extrabudgetary resources, and additional savings on the core administrative budget. There was also reference to the position taken by certain host Governments that had indicated an intention to cover all expenses in local currency.

7. Several delegations requested clarification of some points while one delegation disagreed with the concept of reimbursable advances and suggested that it would be appropriate to finance new activities within existing budgetary appropriations. One delegation felt that if further additional savings could be made in 1994-1995 to reimburse such advances, perhaps such savings should be made irrespective of whether the proposed activities went ahead or not.

8. The Administration pointed out that, having just made substantial cuts in headquarters staffing, there was little prospect of being able to finance additional activities within existing appropriations for 1992-1993. However, with a breathing space and further rationalization efforts, savings should be forthcoming in 1994-1995, which, combined with some reallocation of administrative resources from supporting other activities, could finance the activities.

9. Following this formal introduction of the subject in the Budgetary and Finance Committee, the matter was referred back to the plenary informal consultations group.

II. UNITED NATIONS POPULATION FUND

10. For its consideration of agenda item 4, the Budgetary and Finance Committee had before it the following documents: (a) Annual financial review, 1991 (DP/1992/32); and (b) Audit reports (DP/1992/33). As was explained during the debate, the Advisory Committee on Administrative and Budgetary Questions (ACABQ) had chosen not to issue a report on the United Nations Population Fund (UNFPA) to the current session of the Council.

11. Copies of document A/46/5/Add.7, containing the interim report of the Board of Auditors on the United Nations Population Fund for the first year of the biennium 1990-1991, were also made available to the Budgetary and Finance Committee.

12. In introducing the UNFPA item and the annual financial review, 1991 (DP/1992/32), the Deputy Executive Director (Policy and Administration) informed the Budgetary and Finance Committee that total UNFPA income in 1991 was $224 million, an increase of 5.5 per cent over the total income in 1990. This was $13.9 million lower than the $237.9 million that had been projected the previous year. The shortfall was largely due to unfavourable exchange rates during the course of the year. Total expenditures in 1991 were $229.1 million, resulting in an excess of expenditure over income of $5.1 million. By carrying forward a deficit of $0.4 million from 1990, the cumulative excess of expenditure over income at the end of 1991 was $5.5 million.

13. He mentioned that the ratio of the administrative and programme support services (APSS) budget to overall expenditures increased from 17.1 per cent in 1990 to 18.5 per cent in 1991. This was largely a result of increases in

field expenditure rather than headquarters expenditure. He added that UNFPA had introduced certain economy measures resulting in savings of $5 million during the biennium 1990-1991. Thus, while the Governing Council had approved net appropriations in the amount of $85 million for the biennium 1990-1991, final expenditures of the APSS budget for 1990-1991 were brought down to $80 million.

14. The Deputy Executive Director reported that UNFPA liquid assets totalled $75.3 million at the end of 1991, as compared to $84.2 million one year before. Both amounts included UNFPA's operational reserve of $45 million, as set by the Council in 1991. He pointed out that at least $1 million of the $5.5 million in overexpenditure for the biennium 1990-1991 would be offset by reductions in the approved APSS budget of 1992. The remaining $4 million would come out of 1992 programme resources.

15. He said that trust fund income in 1991 totalled $8.2 million compared to $11.8 million in 1990, while trust fund expenditures were $11.5 million, about the same as in 1990. As a result, the unexpended balance of trust fund resources was reduced from $10.9 million at the end of 1990 to $7.6 million at the end of 1991.

16. Turning to audit matters, the Deputy Executive Director was pleased to report that considerable progress had been made. For example, all United Nations executing agencies had submitted audited financial statements for 1991 on time, except the Food and Agriculture Organization of the United Nations (FAO), which had requested an extension on technical grounds. With respect to the projects executed by the United Nations and its regional commissions as well as by all other United Nations organizations audited by the United Nations Board of Auditors, it was explained that no separate audit statements would be required by the External Auditors, since the Board audits these organizations as well as UNFPA itself. As a result, UNFPA did not expect the Board of Auditors to qualify its audit opinion of the financial statements of the United Nations organizations executing UNFPA-funded projects. The Deputy Executive Director further pointed out that UNFPA was proposing a new financial regulation (regulation 8.9) covering standard basic agreements with executing agencies, as contained in paragraph 13 of document DP/1992/33.

17. With reference to the interim audit report for the first year of the biennium 1990-1991, the Deputy Executive Director said that UNFPA agreed with most of the observations made by the Board of Auditors. In response to the observations of the Auditors, UNFPA was formulating new procedures relating to the calculations of overheads payable to non-governmental organizations (NGOs). Similarly, UNFPA planned to clarify its guidelines on pre-project activities and the activities to be financed under umbrella projects.

18. With respect to internal financial controls, he stressed the important role played by the UNFPA Representative, assisted by the UNFPA Country Director, in ensuring financial accountability and responsibility. Existing accounting and financial procedures had recently been clarified, including those necessary for the successful implementation of increased decentralized

approval authority to the field. UNFPA had also taken steps to ensure that the certification and approval functions would not be carried out by the same staff members. Thus, the UNFPA Representative, as the highest ranking UNFPA official in any field office, would normally designate the UNFPA Country Director as certifying officer while retaining for himself/herself the function of approving officer.

19. Finally, the Deputy Executive Director noted the intention of UNFPA to add cost-sharing to its existing funding mechanism. Such an arrangement would be largely patterned on that currently used by UNDP and governed by a similar regulation. UNFPA intended to propose such a regulation to the Governing Council for its approval at its fortieth session. He thanked the current Board of Auditors for the many useful suggestions they had made to UNFPA over the course of the previous three years.

Summary of discussion in the Committee

20. The delegates thanked the Deputy Executive Director for his comprehensive statement, which clarified a number of issues before the Committee.

21. Many delegations cautioned UNFPA on its income projections, which they felt were rather ambitious. They underscored the need for realism and stressed that the Fund should not create undue expectations for recipient Governments about the level of programme resources likely to be made available over the course of the ensuing few years. Speaking on behalf of a group of donor countries, one delegate stressed that even the currently projected annual resource increase of 8 per cent instead of 10 per cent for 1993 and onward seemed too optimistic, but at the same time stressed that the countries on whose behalf he spoke fully endorsed the goal of the Amsterdam Declaration of mobilizing $9 billion per year for population activities by the year 2000.

22. Most delegates voiced concern about the overexpenditure in 1991. Some delegations voiced reservations about the financial management of UNFPA, recommending that UNFPA should keep interested parties informed on a quarterly basis on developments in income and expenditure projections. However, another delegation felt that might constitute too detailed an involvement on the part of the Governing Council. The same delegate reminded the Council that, having agreed last year to a UNFPA work plan with annual income increases projected at 10 per cent, donors should provide UNFPA with the financial support needed to meet the level of programmes projected in the work plan.

23. Given the lower-than-expected level of income in 1991, most delegations commented on UNFPA's efforts to reduce APSS expenditures below the authorized level. At the same time, however, many of the delegations voiced concern that, despite those savings, the percentage increase of the APSS expenditures was larger than that of the programme in 1991. One delegate, speaking on behalf of several delegations, noted that the Governing Council had expressed a similar concern on the matter last year. He suggested that the Executive Director submit proposals for reductions in the APSS budget for 1994-1995. Two other delegates voiced concern that the increase in the proportion of the

APSS budget seemed to be an ongoing trend, rather than a one-time shortfall in resources in 1991.

24. A number of delegations addressed the issue of national execution. One asked why national execution as a proportion of overall execution had decreased from 1990 to 1991. Another observed that it was not easy to increase national execution. A third delegate noted that UNFPA execution consisted of a mixture of procurement from developing countries plus its own project execution activities. He also observed that UNFPA-executed projects, excluding such procurement, had risen from $7.2 million in 1989 to $16.1 million in 1991. One delegate suggested that, as in the case of UNDP, UNFPA should also pay overheads to those Governments that were executing UNFPA-financed projects.

25. Two delegates referred to UNFPA overexpenditure in 1991 in relation to the Fund's operational reserve. They stated that there was no reason to change the level of the reserve prior to the review foreseen in 1993.

26. Two delegates requested information on the possibility of projects being financed by the European Community and on the concept of cost-sharing. Several delegates also commented on the sources of financing for the leaders of the technical support services (TSS) teams. One felt that they should be financed from the APSS budget. Another fully supported the UNFPA position that they should be financed from programme funds, as the total TSS concept and activities were programme-related matters, as had been endorsed by the Governing Council last year.

27. Delegations agreed that implementation of the recommendations of the Auditors was of primary importance. They expressed satisfaction with action taken to date to implement many of the recommendations made, but noted that additional steps were needed.

28. Several delegations spoke in support of the UNFPA desire to enter into standard basic agreements with relevant United Nations executing agencies. One delegate recommended that the standard basic agreement should state clearly that UNFPA would transfer funds to executing agencies only if the agencies provided timely and appropriate reports on project substance and finances. Another delegate stated that it was desirable for UNFPA to conclude similar standard basic agreements with Governments, while others raised a similar point regarding NGOs. In that context, several delegates stressed the need for all executing agents of UNFPA-funded projects (United Nations executing agencies, Governments, NGOs) to submit audited financial statements to UNFPA.

29. One delegation requested more information on the issue of pre-project financing, an area on which the Auditors had expressed some concern. She asked if there had ever been any cases in which advance payments had been returned, as required by the letter of understanding signed by UNFPA and the executing agency and as indicated in paragraph 25 of document DP/1992/33.

30. Two delegations referred to the discussions of UNFPA audit reports in the Fifth Committee during the forty-sixth session of the General Assembly. One delegate wanted to know specifically what action UNFPA had taken in response to paragraph 14 (b) of General Assembly resolution 46/183, which required that UNFPA develop a clear delineation between programme expenditures and administrative expenditures.

31. A number of delegations emphasised the need to strengthen further financial management and control. In that regard, one delegation sought clarification of the respective responsibilities of the UNFPA Representatives and the UNFPA Country Director.

32. Some delegations commented on the establishment of a UNFPA unit in the UNDP Internal Audit Section, the staffing of which had been approved by the Governing Council last year. The observation was made that UNFPA was taking too long to fill the two staff posts foreseen for that function. One delegate indicated that they had preferred the establishment of a separate audit unit in UNFPA but had, reluctantly, gone along with the consensus the previous year for the interim arrangement to establish it as part of the Committee for Audit and Management Review. He wondered why there was no information on the eventual transfer arrangements and expressed concern about the delays in starting those activities. Another delegate added that it was of extreme concern since, even after 12 months, only one staff member of the audit team had been identified and the unit had not yet started to function.

Reply by the Administration

33. The Deputy Executive Director (Policy and Administration) thanked the delegates for their kind words and constructive criticisms. He mentioned that in the future UNFPA would endeavor to be more prudent in its resource projections. The fact that the 1991 income did not increase as expected was largely due to the appreciation of the United States dollar vis-à-vis other currencies during the year. That had obliged UNFPA to take a number of measures to adjust administrative and programming activities during 1991. As a result of those measures, although the shortfall in resources amounted to $14 million, UNFPA was able to reduce the overexpenditure to $5 million. The $5 million in overexpenditure would be absorbed in full in 1992. He assured members that major donors would be kept informed of developments in income and expenditure projections on a timely basis.

34. With regard to the increase in the APSS budget, he reiterated the following points: First, UNFPA had endeavoured to minimize expenditure and indeed had saved $3 million through delayed recruitment of staff; $0.6 million in expenses for field premises; and $0.4 million in miscellaneous expenses. The Fund also realized an increase in income of $1 million in overhead costs from the World Bank. The savings and increased income totalling $5 million had been achieved despite mandatory increases in staff costs resulting from decisions of the International Civil Service Commission (ICSC) and the General Assembly. Second, like everyone else, UNFPA suffered from the effects of world-wide inflation, which was estimated at 7.2 per cent in 1991. Third,

approximately two thirds of the increase in the APSS budget (net) was for UNFPA field offices. Finally, the increases that did occur at headquarters were largely due to the strengthening of the Fund's management information system (MIS) and increased staff training.

35. He noted the comments made by delegates on the slight decrease in programme expenditures under national execution and he stressed that national execution depended not only on the capability of a Government to execute a project in full, but also on its willingness to do so. In addition, while upholding the principle of promoting national execution whenever feasible, he pointed out that UNFPA used the national execution modality whenever all aspects of accountability could be met in full.

36. On matters referring to audit issues, the Deputy Executive Director replied that the delay in the recruitment of internal auditors was regrettable, but UNFPA had to depend on the UNDP Division of Personnel for recruitment action. He expected the unit to be functioning around July 1992. However, he underscored that an internal audit unit with two professionals would not be able to cover adequately the activities of UNFPA, which now exceeded $200 million per year. Thus, he alerted the Governing Council that UNFPA might ask for increases in the staff of the unit, as well as for the formal transfer of the unit from UNDP to UNFPA in connection with the submission of the Fund's 1994-1995 budget estimates.

37. With respect to the delineation between programme expenditures and administrative expenditures, the Chief of the Finance Branch replied that UNFPA had done that which had been requested, since reports had been issued by UNFPA and accepted by the Governing Council on project staff at headquarters as well as on the financing of publications and other awareness-creation activities. He further explained that the Council had been advised on the subject at its thirty-eighth session and that if there were any further comments by the Auditors during the 1991-1992 audit, the matter would be reported to the Council again. He concluded by noting that should the auditors require further clarification on those or any related issues, UNFPA would be pleased to comply with the requests.

38. Concerning the payment of overheads to Governments executing UNFPA projects, the Deputy Executive Director replied that UNFPA would maintain its current policy of not providing such payments. He did emphasize, however, that UNFPA was willing to provide technical assistance to concerned Governments to help them build up their national capacities.

39. On the possibility of projects being financed by the European Community, the Deputy Executive Director confirmed that UNFPA maintained close contacts with the European Community, both at headquarters and field levels, with a view to developing joint financing of projects. Regarding cost-sharing, he responded that certain Latin American countries wanted to contribute to projects in their own countries which required simple procedures, and that had led UNFPA to consider cost-sharing arrangements in line with the existing UNDP policies and procedures. UNFPA noted that amendments to the Financial

Regulations were necessary to enable the Executive Director to enter into cost-sharing arrangements with recipient Governments and/or external donors. Concerning the request for more information on the respective responsibilities of the UNFPA Representative and the UNFPA Country Director, the Deputy Executive Director explained that the ultimate responsibility in the field lay with the UNFPA Representative and that UNFPA was implementing appropriate control measures in that regard.

40. The Deputy Executive Director reiterated the need for increased resources in view of the urgent need to solve the population problems of the developing countries.

Recommendation of the Committee

41. Following its consideration of this item, the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

Having considered the annual financial review, 1991 (DP/1992/32) and the audit reports (DP/1992/33),

Having taken into account the views and comments of members of the Governing Council on the documentation before it,

Noting with appreciation the activities of the United Nations Population Fund in supporting developing countries in the formulation and implementation of population programmes,

1. Takes note of the annual financial review (DP/1992/32), the audit reports (DP/1992/33) and the interim report of the Board of Auditors on the United Nations Population Fund for the first year of the biennium 1990-1991 (A/46/5/Add.7);

2. Notes that the United Nations Population Fund's expenditure in 1991 exceeded its income and that the United Nations Population Fund's actual income in 1991 and currently projected income for 1992 fall considerably short of the United Nations Population Fund's original estimates; and urges the United Nations Population Fund to ensure that future estimates of its income are soundly based and reflect actual trends and that future expenditure plans accord with these estimates;

3. Takes note with concern of the continued increase in the proportion of United Nations Population Fund's administrative expenditures in relation to the total programme expenditures and requests the Executive Director to propose steps to reduce the proportion of administrative expenditures and also, in this regard, to strengthen further the internal financial management and control of the United Nations Population Fund and to report on these activities to the Governing Council at its fortieth session (1993);

4. Further requests the United Nations Population Fund to keep Governing Council members informed of income and expenditure projections;

5. Confirms paragraph 19 of decision 91/36, on the level of the operational reserve;

6. Approves the following new regulation of the United Nations Population Fund's Financial Regulations and Rules:

"Regulation 8.9: Agreements shall be entered into between the United Nations Population Fund and executing agencies which are organizations of the United Nations system, specifying the general terms and conditions which are to govern the United Nations Population Fund's assistance to projects for which those organizations have been designated as executing agencies";

7. Requests the Executive Director to submit to the Governing Council at its fortieth session proposed amendments to the financial regulations of the United Nations Population Fund which upon consideration by the Governing Council at that session would permit the Executive Director to enter into cost-sharing arrangements with recipient Governments on their request and/or with external donors;

8. Notes the steps already taken by the Executive Director, within her competence, to implement previous recommendations of the Board of External Auditors in response to paragraphs 14 and 17 of General Assembly resolution 46/183 of 20 December 1991;

9. Requests the Executive Director to take the additional steps required to implement the remaining recommendations of the Board of Auditors;

10. Urges the Executive Director to implement paragraph 13 of Governing Council decision 91/36, on internal audit, without delay.

42. The Governing Council subsequently adopted decision 92/33.

III. FINANCIAL, BUDGETARY AND ADMINISTRATIVE MATTERS

A. Annual review of the financial situation, 1991

43. For its consideration of item 3 (a), the Budgetary and Finance Committee had before it the report of the Administrator contained in documents DP/1992/38 and DP/1992/38/Add.1.

44. The Associate Administrator introduced the item, noting that the report provided the following: a comprehensive review of the financial activities of UNDP during 1991; forecasts for 1992 and 1993; coverage of supplementary activities; a report on trust funds established by the Administrator during 1991; and proposed changes to the Financial Regulations in response to comments of the auditors.

45. He was pleased to report that for the second year in a row, programme expenditures exceeded $1 billion. Total field programme expenditures amounted to $1.135 billion, 8.6 per cent more than in 1990. Indicative planning figure (IPF) expenditures, at $872 million, showed an increase of 2.6 per cent. On the income side, voluntary contributions received were 5.3 per cent less than in 1990. This was due to two factors: the strengthening of the United States dollar, resulting in a reduction in the dollar value of contributions; and delayed payment of $105 million in pledged contributions for 1991, which were received in January 1992. Miscellaneous income, also reflecting the strength of the dollar, was lower at $13.5 million than at the $65 million originally projected. The balance of general resources was $300.6 million less than the balance held at the end of 1990 and $253 million less than projected at the thirty-eighth session of the Governing Council.

46. In document DP/1992/38, the Administrator had expressed his concern about the resource projections over the fifth programming cycle. The fifth cycle programme was established on an assumption of an 8 per cent annual growth in resources. In fact, pledged contributions for 1992 are some 4 per cent higher than pledges for 1991. Following a review of resource and programme trends, the Administrator had adjusted the expenditure targets for 1992 and 1993 to $780 million and $760 million, respectively, to ensure a smooth transition from year to year over the course of the cycle.

47. The Associate Administrator noted the continued increase in cost-sharing contributions and expenditures. Cost-sharing contributions in 1991 amounted to $219 million, which was $59 million more than projected in early 1991. UNDP believed that the high level of contributions would continue, based on contributions received to date.

48. The Governing Council was requested to approve a proposed new format for ex post facto reporting of agency support costs, and proposed changes to the Financial Regulations in response to comments of the auditors. The Council was also asked to consider the request of the World Meteorological Organization (WMO) for additional support cost reimbursement.

Summary of the discussion of the Committee

49. Members expressed concern that the level of contributions was not achieving the rate of growth agreed to in Governing Council decision 90/34 of 23 June 1990. While one member questioned the significant reduction in the balance of general resources and the cash position of the organization, another felt that the reduced liquidity level was a more reasonable one for the programme. Several members stressed the need for budgetary constraint, with one suggesting that UNDP should absorb, to the maximum extent possible, inflation increases and other non-discretionary cost increases. While some members agreed that no additional reimbursement of support costs should be made to WMO, one member did indicate that such reimbursement was justified. Some members agreed to the proposed amendments to the Financial Regulations; one, however, expressed the view that further discussions were necessary before all the proposals could be accepted. One member asked for an

indication of the UNDP disbursement pattern by type of currency. Another member wanted assurance that there were continuous efforts to rationalize office accommodation among Joint Consultative Group on Policy (JCGP) members. A number of delegations accepted the ex post facto report format, as proposed by the Administrator, one noting that additional clarification was desirable.

Response of the Administration

50. The Director of Finance provided additional information on the UNDP cash situation. He told the meeting that the balance of resources was not indicative of UNDP cash holdings. Those were most clearly represented by the level of UNDP main programme investments, set out in table 2 of document DP/1992/38. He reported that the UNDP disbursement pattern at present by currency was 45 per cent in United States dollars; 30 per cent in convertible non-dollars; and 25 per cent in non-convertible local currencies. The Director confirmed that JCGP members cooperate closely in the establishment of new offices in the field but recognized that further progress in that direction was certainly possible.

Recommendations of the Committee

51. Following its consideration of this item the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council

1. Takes note of the report of the Administrator on the annual review of the financial situation (DP/1992/38 and Add.1 and DP/1992/38/Add.1/annex) and the observations and comments made thereon;

2. Also takes note of its decision 92/3 on the fourth and fifth programming cycles;

3. Notes with concern the impact of fluctuations in exchange rate parities on the dollar value of contributions in 1991 and on the level of resources anticipated by the Administrator in 1992 and 1993;

4. Also notes with concern that the real growth in contributions has not reached the level projected in decision 90/34 of 23 June 1990;

5. Further notes the reduction in the Administrator's expenditure forecasts resulting from the level of resources presently anticipated;

6. Approves the format of the ex post facto report on support costs presented in document DP/1992/38 and requests the Administrator to submit such a report to the Governing Council on a biennial basis, starting in 1994;

7. Approves the changes to the Financial Regulations proposed in section VI of document DP/1992/38, as amended and contained in the annex to the present decision;

8. Defers consideration of the request for additional support cost reimbursement from the World Meteorological Organization;

9. Urges member organizations of the Joint Consultative Group on Policy to pursue vigorously the possibility of using common premises.

Annex

CHANGES TO THE FINANCIAL REGULATIONS

1. Regulation 14.4: The Administrator may, after full investigation, authorize the writing-off of losses of cash, stores and other assets, provided that a statement of all such amounts written off shall be submitted to the Board of Auditors with the accounts. The Administrator may establish, from time to time, an amount below which full investigation and formal write-off are not required. Such amounts shall, for administrative efficiency, be charged directly to the relevant allotment/budget line.

2. Rule 114.15 (c) The amount authorized for waiver of investigation and write-off in accordance with Financial Regulation 14.4 is $30.00.

3. Financial Regulation 14.1 (d)

(d) Maintain an internal financial control which shall provide for an effective current examination and review of financial, management and operational activities, in order to ensure:

(i) The regularity of the receipt, custody and disposal of all (funds and other) financial resources of UNDP, funds administered by UNDP and non-UNDP funds managed by UNDP;

(ii) The conformity of expenditures and commitments with the allocations, appropriations or other financial provisions decided upon by the Governing Council or with agreements with other United Nations organizations and other entities;

(iii) The effective and efficient management of UNDP and the effective, efficient and economic use of resources of UNDP, funds administered by UNDP and non-UNDP funds administered by UNDP.

4. Financial Rule 114.38 - Internal audit

The Division for Audit and Management Review shall be responsible for the internal audit of UNDP and shall have free access to all books, records and other documents which are, in its opinion, necessary for the performance of the audit. Its reviews will be conducted in accordance with generally accepted auditing standards, shall provide comments and recommendations to the Administrator on financial, management and operational activities, in respect of:

(a) The regularity of the receipt, custody, expenditure, accounting and reporting of all financial resources of UNDP, funds administered by UNDP and non-UNDP funds administered by UNDP, and the effectiveness of (existing) internal controls and accounting systems;

(b) The conformity of expenditures with the purposes for which funds were appropriated or otherwise provided by the Governing Council and the financial authorizations issued thereunder, or with the purposes and rules relating to other funds administered by UNDP or with agreements with other United Nations organizations and other entities;

(c) The compliance of all financial activities and transactions with established regulations, rules, policies, procedures and administrative instructions;

(d) The effective and efficient management of UNDP and the effective, efficient and economic use of UNDP resources, funds administered by UNDP and non-UNDP funds administered by UNDP.

5. It is also proposed that the following definition be consequently introduced into Regulation 2.2.

"Non-UNDP funds administered by UNDP" shall include non-UNDP funds entrusted to UNDP for administration and management, such as those under Management Service Agreements (bilateral, development banks, etc.), and agreements with United Nations system organizations and other entities.

6. Regulation 17.2:

The Administrator shall ensure that Governments which are executing agencies, and other parties selected for project implementation under Regulation 8.10 (e), shall require their auditors to follow, to the extent feasible, the audit principles and procedures prescribed for the United Nations with respect of funds obtained from or through UNDP and shall ensure that each project is audited at least once in its lifetime and shall submit audit reports together with the reports specified in the project document and under Article XV of these Regulations.

7. Rule 117.1:

The Administrator shall establish, from time to time, criteria determining nationally executed projects which are to be audited biennially. Such criteria shall be made available to the Board of Auditors.

52. The Governing Council subsequently adopted decision 92/36.

B. Revised budget estimates for 1992-1993

53. For its consideration of agenda item 3 (b), the Budgetary and Finance Committee had before it the following documents:

Revised budget estimates for the biennium 1992-1993 (DP/1992/40);

Report of the Advisory Committee on Administrative and Budgetary Questions (DP/1992/39).

54. The Assistant Administrator, Bureau for Finance and Administration, introduced the item by citing examples of the exciting new challenges before the United Nations system as a whole. They included critical contributions to emergency operations; the role of UNDP in the electoral process in a number of countries; the role of UNDP in reconstruction efforts; and the contributions being made throughout the world for the preparations of the Earth Summit.

55. It was against this background that the real cost of the UNDP global field network had to be assessed. UNDP would have been remiss in its duties if it had not brought to the Governing Council's attention the need to weigh the costs associated with performing those broader functions against the impact on the effectiveness of the system of not performing them at all. This consideration formed the basis for the Administrator's 1994-1995 budget strategy.

56. With regard to volume adjustments, the Administrator proposed an extension through the end of the biennium of the arrangements approved by the Governing Council in 1991 for the Humanitarian Programme. The Council approved one D-2 post and one P-5 post to be funded from the core budget through June 1992. UNDP had a vital role to play in supporting the Under-Secretary-General for Humanitarian Affairs, with whom the Administrator had consulted closely. The maintenance of existing arrangements in New York through the biennium would provide critical support to the United Nations.

57. The 1994-1995 budget strategy was based on the distinction between the continued commitment to contain core budgetary growth in line with overall core resources and the need to identify clearly those costs borne by UNDP not related to the delivery of the indicative planning figure (IPF).

58. The Administrator's strategy relating to core cost containment was based on three elements:

(a) The rationalization of business functions;

(b) Increasing the cost-effectiveness of business functions;

(c) Proposals relating to the human resource aspects of the management of change.

59. The Administrator had established a budget reduction target for the core 1994-1995 budget of some $30 million to $40 million. Achieving the target would be painful but necessary.

60. A policy of budgetary discipline with regard to the core budget in relation to the delivery of the programme could not be viewed in isolation. No such discipline existed regarding the mandates and responsibilities placed on UNDP field offices. Such a discipline did not exist and should not exist since using the UNDP field office network was the most cost-effective mechanism for the United Nations system as a whole. However, UNDP could not be financially penalized for undertaking its coordination role and related functions. Moreover, the voluntary character of UNDP funding had to be recognized in that connection. It was for those reasons that UNDP was proposing to identify separately for the consideration of the Governing Council those costs relating to non-IPF workload.

61. Regarding the Office for Project Services (OPS), the Assistant Administrator believed the analysis provided in the document demonstrated that UNDP had exercised a policy of budgetary restraint despite substantial growth in the programme. The rate of growth of the programme remained significantly higher than that of the budget. More specifically, total budgetary expenditure remained substantially lower than income earned. The Administrator's policy relating to OPS budgetary growth remained one of overall prudence. The acceptance of new projects was in conformity with the new project acceptance policy of OPS. Income was not a justification as such for the establishment of posts. However, it had to be recognized that income was earned as a result of programme activity and programme activity necessarily involved workload. Finally, on the subject of OPS, the Assistant Administrator stressed the importance attached to the proposals amounting to $1.4 million relating to project management information requirements.

Summary of discussions in the Committee

62. Several delegations took note of the cost adjustments reflected in the proposed revised budget estimates. Many delegations expressed support for the continuation of the arrangements provided for in Governing Council decision 91/46 relating to the Humanitarian Programme until the end of the biennium. One delegation asked whether it would not be more appropriate to strengthen selected field offices to carry out more effectively programmes in the countries concerned.

63. Many delegations considered that the arrangements relating to the Humanitarian Programme should be maintained on a temporary basis pending the overall review to be undertaken by the Under-Secretary-General for Humanitarian Affairs. One delegation questioned whether the Humanitarian Programme was any longer required, particularly in view of the developments in the United Nations. The delegation considered that further justification was required to maintain existing arrangements. In particular, the need for the continuation of the senior post at the D-2 level was questioned.

64. All delegations welcomed the 1994-1995 budget strategy presented by the Administrator. A number of delegations stressed that the measures being proposed were a step in the right direction. Several delegations stressed the need to reduce the ratio of General Service to Professional posts. A number of delegations welcomed the objective of achieving savings through the introduction and full utilization of more productive technologies.

65. Under the rationalization of business functions, one delegation sought further clarification of paragraph 21 (d) of document DP/1992/40 concerning the consolidation of programme management in the field. Most delegations welcomed the concept of regional service centres. Several delegations stressed the need to avoid the creation of any additional bureaucratic layers, in particular in the decision-making process. One delegation noted the need to consider the establishment of regional service centres on a case-by-case basis in order to ensure that the objective of cost efficiency was achieved in each case. A number of delegations requested additional information on the financial implications of the different measures being proposed. Clarification was also sought on the distinction between the concept of regional service centres in the budget strategy and the concept as it related to the regional service centres proposed for the Commonwealth of Independent States.

66. Several delegations emphasized the importance of achieving savings in the high-cost offices. Various delegations stressed the need for the distribution of resources covering field offices to reflect the distribution of programme resources approved in decision 90/34 of 23 June 1990.

67. Many delegations addressed issues related to the Administrator's proposals regarding short-term, non-permanent contracts and reclassifications in the P-1 to P-5 categories. Most delegations stressed the importance of common system approaches to those issues and strongly endorsed the remarks of ACABQ in that regard. A number of delegations supported the Administrator's proposals regarding short-term contracts on a pilot basis, bearing in mind the Administrator's overall budgetary strategy. Delegations noted that consultations with ICSC and in inter-agency forums had taken place and stressed the need for them to continue. Delegations emphasized the need for full reporting and transparency. One delegation requested the Administrator to provide information on contract length as well as on overall person months and total dollar value.

68. Regarding reclassification, delegations noted that the proposal had no financial implications but nevertheless expressed concern about the possibility of grade creep. Overall, delegations again emphasized the need for common system-wide approaches, a number supporting the ACABQ recommendation that a decision be deferred until the General Assembly had considered the Secretary-General's report on posts, to be submitted to the General Assembly at its forty-seventh session.

69. One delegation stressed the need to streamline the senior-level posts at headquarters and requested the Administrator to submit a plan to reduce the number of such posts. The same delegation raised an issue relating to the practice of hiring consultants in New York with a remuneration similar to or higher than that of a D-2. He asked the Administrator to provide relevant information, including the number of consultants and the duration and nature of the services provided. He requested that UNDP hold informal consultations on the question with interested delegations.

70. Many delegations supported the Administrator's proposals regarding increasing transparency relating to non-IPF workload in field offices. Several delegations requested the Administrator, in line with decision 91/46, to provide an analysis in 1993 of possible sources of financing for services provided by UNDP. A number of delegations expressed the view that UNDP should continue to fund those activities. One delegation requested detailed information regarding the nature of the services provided. Another delegation stressed the importance of streamlining and rationalizing the workload not related to the delivery of the IPF programme.

71. Many delegations took note of the proposed post increases in OPS and of the fact that the bulk of them were to be funded through extrabudgetary resources. One delegation asked about strategies (a) to increase the proportion of women used by OPS as international experts and consultants and in professional grades and (b) to increase the proportion of women taking up training awards.

72. Several delegations expressed agreement that OPS must be given, within its income, the tools to respond effectively to the demands placed upon it. Several delegations supported the Administrator's request for an additional $1.4 million for improvements in management information systems. One delegation sought clarification regarding the apportionment of costs for management information systems between budgetary and extrabudgetary funds.

73. On the other hand, several delegations noted with concern the continued growth of OPS. One delegation expressed concern at the volume increases in an off-budget year which, as a matter of principle, should not be accepted. Reference was made, in that regard, to a corresponding decision in the United Nations Children's Fund (UNICEF).

74. Several delegations considered that the review submitted by the Administrator on the role of OPS, requested by the Governing Council in 1991, appeared inadequate. One representative requested a more detailed review of the role of OPS in the context of a restructured system of operational activities.

75. A number of delegations took note of the Administrator's proposals relating to the Inter-Agency Procurement Services Office (IAPSO). Several delegations expressed the need for a more concerted effort to be made to achieve savings through the merger of the administrative and other functions of the funds. They indicated that the subject should be kept under review.

Response of the Administration

76. The Administration stressed the close cooperation being pursued between the new office of the Under-Secretary-General for Humanitarian Affairs and the UNDP Humanitarian Programme. It explained the importance of the role the Humanitarian Programme could play during the existing transition period. It also noted the critical role envisaged for Resident Coordinators and the importance of the emergency to development continuum, as reflected in General Assembly resolution 46/182.

77. The Administration provided a number of clarifications regarding the proposed 1994-1995 budget strategy. The reference made in paragraph 21 (d) of document DP/1992/40 to the consolidation of programme activities related to the administrative implications of the adoption of the programme approach. On regional service centres, the Administration explained that there was no intention of introducing a new bureaucratic layer, and that the objective was to achieve better outreach and increased cost-effectiveness. The Administration further explained that the concept in general related to decentralizing from headquarters, but in the case of the Commonwealth of Independent States, the concept was to regionalize the provision of administrative services.

78. Regarding the proposals for short-term contracts, the Administration expressed full support for the view that those matters must be dealt with in consultation with ICSC and in inter-agency forums. The Administration reiterated that the person months and dollar value of proposed contracts by organizational unit would be included in the 1994-1995 budget estimates. It was also noted that the new contracts would be reviewed by the United Nations Office for Legal Affairs.

79. Regarding reclassification, the Administration stressed that the proposal had no financial implications. The proposal was required as a management tool to form an integral part of the budget strategy. The Administration noted that the reviews undertaken over the last few years in field offices had led to an overall reduction in the level of posts. It was further noted that reclassification would be undertaken in the context of structured reviews and would be consistent with common system approvals. It was further stated that the Committee would be provided with a performance report that would enable it to make a clear assessment as to the way in which any delegated authority had been used.

80. On the hiring of consultants in New York, the Administration agreed to provide interested delegations with the information requested and said that UNDP would hold informal consultations with interested delegations.

81. Responding to specific issues raised in relation to OPS, IAPSO and the Funds, the Administration stated with regard to OPS that a distinction had long been observed between core budgetary requirements and the needs of an implementing agency which had to be programme driven. That was why, for the previous 10 years, OPS had been delegated the authority to approve posts

within income. The Assistant Administrator, OPS, took note of the comments related to the employment of women and undertook to continue the efforts made to improve performance in that regard. The Administration undertook, as requested, to keep in mind the possibility of savings from the merger of the administrative functions of the Funds under review.

Recommendations of the Committee

82. Following its consideration of this item the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

Having considered the revised 1992-1993 biennial budget estimates of the United Nations Development Programme and the funds administered by the United Nations Development Programme,

Taking note of the report of the Advisory Committee on Administrative and Budgetary Questions (DP/1992/39),

1. Approves the cost adjustments reflected in the revised estimates;

2. Approves the continuation of one core post (at the P-5 level) for the Humanitarian Programme until the end of the 1992-1993 biennium and decides to apply the same procedure to the existing D-2 post in the Humanitarian Programme on a transitional basis;

3. Decides, in this context, to review the staffing level of the Humanitarian Programme, stressing the need for a clear division of responsibility between the Department for Humanitarian Affairs and the United Nations Development Programme/Humanitarian Programme, bearing in mind Governing Council decision 92/20 of 26 May 1992;

4. Welcomes the Administrator's 1994-1995 budget strategy, including the proposed volume reduction of $30-40 million; and in order to give priority to the allocation of resources for programming and to protect fully the integrity of the Programme, strongly urges the Administrator to aim to achieve the maximum possible savings;

A

5. Requests the Administrator, in this regard, to take into account the following issues, in particular:

(a) The need to ensure that regional service centres do not introduce a new bureaucratic layer nor duplicate headquarters functions;

(b) The need to reduce significantly the ratio of General Service to Professional staff, bearing in mind the introduction of improved management information systems technology;

6. Requests the Administrator to report fully to the Governing Council at its fortieth session (1993) on action taken in response to Governing Council decision 91/46, and in particular to paragraph 12 of that decision;

7. Requests the Administrator, in the context of General Assembly resolution 41/211 and the 1994-1995 budget strategy, to include an analysis of the United Nations Development Programme field structure, taking the following elements into account:

(a) The levels of indicative planning figures and extrabudgetary resources;

(b) The impact of the composition of resources on the field structure;

(c) The impact of different options for the decentralization of the Office for Project Services as described in paragraph 16 of annex III to document DP/1992/45;

8. Requests the Administrator to review and make recommendations to the Governing Council regarding the possibility of a more flexible and cost-effective approach to the United Nations Development Programme field presence, including the option of closing field offices and of making use of regional offices;

9. Requests the Administrator to include management service agreements expenditure within the data on the net flow of resources provided in annex I of the annual review of the financial situation (DP/1992/38) and to provide an analysis of the effects of the composition of these resources on the United Nations Development Programme country programmes;

B

10. Takes note of the comments of the Advisory Committee on Administrative and Budgetary Questions contained in paragraphs 17 to 21 of document DP/1992/39 and stresses the importance of common system-wide approaches on personnel entitlement issues;

11. Approves, on a pilot basis, the Administrator's proposals contained in paragraphs 25 to 29 of document DP/1992/40 relating to short-term non-permanent contracts;

12. Requests the Administrator to consult with the International Civil Service Commission and in appropriate inter-agency forums on the implementation of the pilot arrangement;

13. Requests the Administrator to provide an interim report in 1993 and a comprehensive report in 1994 on experience gained and on his consultations with the International Civil Service Commission;

C

14. Takes note of the comments of the Advisory Committee on Administrative and Budgetary Questions in paragraphs 22 and 23 of document DP/1992/39 and stresses the importance of common system-wide approaches on job-classification issues;

15. Decides that the Administrator's reclassification proposal contained in paragraphs 31 and 32 of document DP/1992/40 should have no adverse financial implications and should not lead to grade creep;

16. Also takes note of the fact that the proposal is an integral and critical part of the Administrator's budget strategy;

17. Approves on a pilot basis, for one year, the Administrator's proposals relating to reclassification;

18. Decides to review the implementation of the pilot arrangement, including its continuation, and reclassifications made, at its fortieth session (1993);

19. Endorses the Administrator's proposals specifically relating to increased transparency of the nature of the services rendered by United Nations Development Programme field offices to non-United Nations Development Programme financed programmes and the associated costs;

20. Reiterates its request, contained in decision 91/46, for an analysis of appropriate sources of funding for these elements to be presented at its fortieth session (1993);

21. Approves, in principle, the Administrator's proposals relating to the Office for Project Services;

22. Requests the Administrator to consider further the possibility of a differentiation in the treatment of the Office for Project Services budgetary and extrabudgetary staff;

23. Requests the Administrator to report on these matters at its fortieth session (1993), also taking into account the wider review called for by decision 92/42 of 26 May 1992;

24. Takes note of the Administrator's proposals in paragraph 64 of document DP/1992/40, relating to the establishment of extrabudgetary posts in the Inter-Agency Procurement Services Office;

25. Requests the Administrator to keep under review the question of savings through mergers of the administrative and other functions of the trust funds.

83. The Governing Council subsequently adopted decision 92/37.

C. Audit reports and other matters

1. Audit reports

84. For its consideration of agenda item 3 (c), the Budgetary and Finance Committee had before it the report of the Administrator on audit reports contained in document DP/1992/41, covering the interim report of UNDP and also further information on follow-up action taken in response to Governing Council decision 91/47 and General Assembly resolution 46/183. It also had before it the financial reports and audited financial statements and reports of the Board of Auditors (A/46/5/Add.1) and the report of the Advisory Committee on Administrative and Budgetary Questions (A/46/510). It also considered documents DP/1992/42 and DP/1992/42/Add.1, containing the audited financial statements of the executing agencies for the year ended 31 December 1990; reports of the external auditors thereon; and the comments of the Administrator on the audit reports of the executing agencies.

85. The Director, Division of Finance, made an introductory statement on the preparation and structure of document DP/1992/41. He noted that not all of the recommendations made by the auditors and ACABQ could be implemented by UNDP alone. In particular, the four items identified in the document under the subject of agency accountability required the input of the executing agencies before UNDP could respond.

86. Those four items were discussed at a meeting of the Consultative Committee on Adminstrative Questions (Finance and Budget) (CCAQ(FB)) in March 1992 (see report of the meeting in document ACC/1992/11). UNDP would conclude a standard basic executive agency agreement with the World Health Organization (WHO) shortly and with the International Labour Organisation (ILO) and with FAO before the end of the year. Exchanges of letters between UNDP and the United Nations Conference on Trade and Development (UNCTAD) and the Economic and Social Commission for Western Asia (ESCWA) were expected in the near future.

87. Several agencies confirmed that their auditors already carried out audits of a very comprehensive nature and that additional reports would involve extra costs. They were also reluctant to pursue the question of the routine provision of audit reports and management letters on agency activities to the external auditors of UNDP without a formal recommendation of the Panel of Auditors. The agencies also confirmed that in their opinion the accounting policy and reporting instructions covering unliquidated obligations were clear and that any deficiencies resulted from faulty application of those instructions.

88. The Director of Finance reported that field missions to eight countries to evaluate the Economists Programme in Africa would be completed in June 1992, with a consolidated report scheduled for completion by September 1992. Members of the evaluation team were meeting with the external auditors to enable the auditors to communicate their concerns clearly.

89. With respect to comments on OPS, he provided additional information on the interim arrangements regarding the functions of the Division Chief and explained that Division Chiefs were in some cases acting as project management officers pending the recruitment of the latter following the recent restructuring. On the ex post facto signature of contracts, he indicated that there appeared to be a problem of definition about when a valid contract came into effect. The matter was being discussed with the external auditors.

Summary discussion of the Committee

90. Members commended the work of the auditors, noting the scope and comprehensive nature of the interim report. Members expressed their concern that WHO, ILO and FAO had not completed the standard basic executing agency agreement as requested by the auditors and the General Assembly. One member indicated that failure to complete the arrangement should disqualify an agency from executing UNDP-funded activities.

91. While members recognized the existing initiatives by OPS, they sought additional clarification of the responses provided, particularly with regard to control over the acceptance of projects, programme planning and implementation. Some members were not convinced that the responses provided by OPS to the audit comments tackled all problems and considered that a more comprehensive approach was needed. Another member asked that a full report on the steps taken by OPS to implement the actions called for by the auditors be provided to the Governing Council at its fortieth session (1993).

92. Additional questions were asked by members on: the Economists Programme in Africa; steps taken to deter fraud; the additional workload relating to the establishment of new trust funds; the status of the preparation of common accounting standards; and the audit requirements for, and the audit frequency of, nationally executed projects. Members also sought assurances that the auditing requirements under the programme approach would ensure the efficiency and effectiveness of that modality.

Response of the Administration

93. The Director of Finance responded to the questions on OPS, indicating that the workload of project management officers could be addressed only by a selective increase in staffing levels or by reducing the volume of activities. The latter would mean limiting the approval of projects. He further explained that the recent restructuring of OPS was intended to make the office more efficient and more responsive. He also outlined the systems development activities undertaken to enhance project management, including the development of three main systems: personnel; procurement; and budget monitoring. The first two were scheduled for completion in 1992 and the third in 1993.

94. The Director provided information on the status of the development of common accounting standards as reported at the March 1992 session of CCAQ(FB). The working party was meeting regularly, with the next meeting to be held in May 1992, in Rome.

95. The Director reviewed the steps taken to respond to the questions on fraud and the implementation of General Assembly resolutions 44/183 and 46/183. Ad hoc committees were being formed to review potential cases of fraud and assess personal financial responsibility. Steps had been taken to remind staff of their responsibilities and to ensure that staff members reporting an incident of fraud would be protected.

96. The Director reported that the Administrator believed existing arrangements provided sufficient funds to cover the incremental workload associated with the administration of trust funds. He cited the enhancements made to existing procedures and information systems to eliminate duplicate data entry. UNDP also intended to incorporate trust funds in the redesign of the programme and project management system, thereby further reducing workload.

97. Discussions with the external auditors had been held to attempt to establish the acceptable percentage audit of nationally executed projects. With such a change, UNDP could meet those audit requirements and thus remove one reason for the audit qualification of the UNDP accounts. Implementation of the programme approach would not change existing audit requirements nor would it detract from the auditor's ability to ensure compliance with UNDP Financial Regulations and Rules.

Recommendations of the Committee

98. Following its consideration of this item the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

Having considered the interim audit report of the Board of Auditors on the United Nations Development Programme for the first year of the biennium 1990-1991, contained in General Assembly document A/46/5/Add.1, as well as the views of the Advisory Committee on Administrative and Budgetary Questions thereon, contained in document A/46/510,

Having also considered documents DP/1992/42 and Add.1, containing the audited financial statements of the executing agencies for the year ended 31 December 1990, the reports of the external auditors thereon, the comments of the Administrator on the audit reports of the executing agencies, and the report of the Administrator on the interim report of the United Nations Development Programme itself (DP/1992/41) and the descriptions of the actions taken in response to Governing Council decision 91/47 of 21 June 1991,

Responding to General Assembly resolution 46/183 of 20 December 1991,

Taking into account the views and comments of the members of the Governing Council on these matters, as well as the additional information provided by the Administration,

1. Expresses appreciation for the valuable work done by the Board of Auditors and for the breadth and scope of their interim report;

2. Notes that the Administrator has taken and is taking action to correct the situations identified by the auditors;

3. Urges the Administrator, in pursuance of paragraph 12 of General Assembly resolution 46/183, to conclude all standard basic executing agency agreements, with the cooperation of the three agencies concerned, by 31 December 1992;

4. Notes the comments of the Administrative Committee on Coordination regarding the comments of the Board of Auditors on agency accountability, as reported on orally by the Administration, and requests the Board to pursue actively, in the Panel of Auditors, the issue of submission of complete audit information to the Board by the external auditors of the agencies;

5. Requests the Administrator to intensify efforts to achieve full implementation of the recommendations of the Board of Auditors on the Office for Project Services and to report thereon to the Governing Council at its fortieth session (1993);

6. Urges the Administrator to continue to work with other United Nations organizations and specialized agencies to achieve common accounting principles and standards.

99. The Governing Council subsequently adopted decision 92/38.

2. Status of management services, report of the Administrator

100. For its consideration of agenda item 3 (c), the Budgetary and Finance Committee had before it the report of the Administrator contained in document DP/1992/43.

101. The Director of the Office for Project Services introduced the item, and said he was pleased to report that the value and applicability of the Management Service Agreements (MSAs) as a means to assist developing countries in utilizing foreign assistance, both multilateral and bilateral, in a better and more expeditious manner, had been borne out by experience.

102. He stressed that concerns expressed by Governing Council members regarding MSAs had been effectively addressed over the years, notably the perceived risk that activities under MSAs would rather reflect donor interests, and not be fully compatible with the development priorities of UNDP recipient countries. He considered that the risk had been practically eliminated. In the first place, more and more MSAs were supporting multilaterally funded projects, ranging from those of the International Fund for Agricultural Development (IFAD) to the World Bank and regional development banks. Furthermore, bilateral MSAs were now systematically scrutinized together with the recipient countries to make sure that they "multilateralized bilateral aid" rather than "bilateralized multilateral capacity".

103. As regards another perceived concern, that MSAs would be designed and handled in an isolated manner without any linkage to UNDP priorities and activities, the Director of OPS reassured members that MSAs were accepted only after thorough examination and clearance by UNDP field offices and bureaux. On many occasions, MSAs had been directly linked to UNDP programmes, thereby enhancing the coordinating role played by UNDP in the countries concerned.

104. The Director concluded that MSAs brought additionality, and also helped to fill crucial management gaps in project implementation, thus supporting national execution. He also emphasized that, to the extent possible, OPS would provide managerial services in combination with national capacity-building efforts.

Summary of the discussion of the Committee

105. In general, the members of the Committee acknowledged the usefulness of MSAs. Most of the members welcomed the trend towards "multilateralization of bilateral aid". Members endorsed the continuation of efforts to ensure complementarity with UNDP programmes and simultaneously to encourage national execution. One delegation welcomed measures to strengthen OPS quality control mechanisms as part of the recent restructuring of the Office.

106. One member expressed concern about the increasing use of the MSA modality by bilateral donors. Adherence to the newly established project acceptance policy was emphasized. Another member pointed out the benefits of the modality for donors, including effective and efficient project execution, where no bilateral capacities existed.

107. Several members stressed the need for continued compliance by OPS with the agreed guidelines on MSAs. A number of members considered that further efforts should be made to ensure full financial accountability and recovery of delivery costs. One member suggested that fees should be established on the basis of general guidelines rather than on a project-by-project basis.

108. Clarifications were sought of procurement rules and regulations regarding international bidding and hiring of consultants under MSAs, notably in relation to projects funded by the World Bank, the International Development Association (IDA) and the International Development Bank (IDB). Support was expressed for measures to ensure that developing countries were fully involved in the international bidding process. One member pointed out that fuller use could be made of international competitive bidding procedures.

109. One member expressed concern about the impact of extrabudgetary activities on the central funding and coordinating role of UNDP. Some members suggested that the future role of OPS, within UNDP and the United Nations system of operational activities, should be the subject of a comprehensive review at the next session of the Governing Council. One member suggested that the impact of OPS services might be discussed in that context. With regard to full cost recovery, it was suggested that UNDP should provide information showing the magnitude of the income in question on a

country-by-country basis, together with an analysis of the consequences of the income for the programming process at the field level. One member expressed the view that the item on management services should be considered by the Governing Council every three years, rather than biennially, as at present.

Response of the Administration

110. The Director of OPS took note of the recommendations made by the members, particularly the need to step up project evaluation efforts. He said that effective evaluation was being given constant attention. The criteria set out in the policy acceptance strategy were also being applied to MSA projects. He added that, in general, as a result of closer scrutiny of projects submitted to OPS for execution, the number of projects accepted had decreased.

111. The Director provided additional information on the calculation of fees. That was undertaken on a project-by-project basis, but following a standard formula. The objective was full recovery of UNDP costs incurred both at headquarters and in the field.

112. On the question of procurement, he explained that OPS adhered strictly to rules for international competitive bidding when providing services to Governments for multilaterally funded projects. He noted in that regard that IDA rules and UNDP rules were virtually identical, and that in fact an effective double check mechanism operated.

113. He pointed out that the allocation of fees between field offices and OPS headquarters was done on the basis of estimated actual costs, which varied with the scope and nature of the services provided.

Recommendations of the Committee

114. Following its consideration of this item, the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

Recalling its decision 88/54 of 1 July 1988, by which it requested the Administrator to report to the Governing Council every two years on the status of management services undertaken by the United Nations Development Programme,

Also recalling its decision 90/46 of 22 June 1990, by which the Governing Council approved the amended guidelines submitted to it on the provision of management services,

Recognizing the impact on the development process and on recipient countries arising from the complementarity of management services to the United Nations Development Programme core programmes,

Stressing that the multilateral character of the United Nations Development Programme and its role as a central funding agency for technical cooperation should not be weakened by the use of Management Service Agreements,

Reaffirming its decision 91/48 of 21 June 1991, particularly paragraphs 2 and 3 thereof, in connection with Management Services Agreements,

1. Concludes that:

(a) The principles and guidelines enumerated in Governing Council decision 83/5 and reaffirmed in decision 90/46 remain valid;

(b) Management services constitute, in principle, a practical and flexible mechanism to increase the capacity of recipient countries to absorb external assistance from both multilateral and bilateral sources;

(c) The use of management services enhances the overall aid coordinating role of the United Nations Development Programme at the field level;

2. Requests the Administrator to continue to observe the principles and guidelines mentioned in paragraph 1 (a) above, and to use management services to enhance the positive effects described in paragraphs 1 (b) and 1 (c) above;

3. Authorizes the Administrator in the coming years to continue to respond to requests for management services in relation to programmes funded by sources other than the United Nations Development Programme, in line with the relevant Governing Council guidelines;

4. Requests the Administrator to bear in mind that management services should be viewed as assistance to developing countries in response to their specific management needs, and urges the Administrator to ensure that Management Service Agreements are implemented with a view to ensuring national capacity-building, and are not detrimental to that process;

5. Requests the Administrator:

(a) To ensure, in respect of bilaterally funded Management Service Agreements, fuller use of rules for international competitive bidding;

(b) To adhere to the rules of international competitive bidding when providing services for multilaterally funded Management Service Agreements;

(c) To ensure that the appropriate United Nations Development Programme contract review process is followed including the so-called double check mechanism.

6. Recommends that in the future a report on management services be submitted to the Governing Council as part of the annual financial report and audited financial statements and as part of the annual report of the Office for Project Services, to be reviewed triennially by the Council, notwithstanding any overall review of the role of the Office for Project Services in the future.

115. The Governing Council subsequently adopted decision 92/39.

3. Financial regulations: matters on which consensus has not yet been achieved

116. For its consideration of agenda item 3 (c), the Budgetary and Finance Committee had before it document DP/1992/44.

117. The Director of Finance introduced the item, noting the significant reduction in the UNDP holding of accumulated currency and reported that, at 31 March 1992, the amount had been reduced further as a result of increased utilization and exchange rate changes since the end of the year. He indicated his expectation that, with the increased level of activities in Eastern Europe, the situation would be resolved. He suggested that the matter was one of principle that should now be resolved to avoid a similar situation arising in future.

Summary of the discussion of the Committee

118. One member asked if other international organizations had similar difficulties which would allow UNDP to draw from their experience.

Response of the Administration

119. The Deputy Director of Finance indicated that no comparable case existed in other international organizations.

Recommendations of the Committee

120. Following its consideration of this item the Budgetary and Finance Committee recommended that the Governing Council adopt the following decision:

The Governing Council,

Taking note of the report of the Administrator on matters on which consensus was not achieved relative to the Financial Regulations of the United Nations Development Programme (DP/1992/44) and the views and comments made thereon,

Decides that the Budgetary and Finance Committee will consider, at the fortieth session of the Governing Council (1993), proposed Financial Regulation 4.6 and the other matters on which consensus was not reached at the thirty-ninth session (1992).

121. The Governing Council subsequently adopted decision 92/40.